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SUBJECT: REPORT FROM ZACATECAS: GOVERNOR SEEKS A NEW ROAD

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11. (SBU) Summary. On October 17-19, Consul General and Econoff met with various political, economic, and media leaders in Zacatecas, including moderate PRD Governor Amalia Garcia Medina, Zacatecas City Mayor Cuauhtemoc Calderon, prominent businessmen, and Representatives from the Zacatecas State Legislature. The CG and the Governor discussed her party's role in Mexico, security, the large migration of Zacatecanos to the U.S., and the potential for greater economic development in Zacatecas. Garcia is working to create jobs to curb the migration of Zacatecanos to the U.S. and other Mexican states by capitalizing on tourism and moving Zacatecas from an agriculture and mining-based economy to a more high-tech one. However, her highest priority is getting funding from the Felipe Calderon administration for a key public works project: i.e., the widening of the currently two-lane highway connecting Zacatecas north to Saltillo (Coahuila). The thought is that if travel time between Zacatecas and the Texas border could be shortened to six or six and a half hours, then much-needed foreign investment would inevitably arrive. End Summary.

12. (SBU) Zacatecas is a poor, arid, high-plains state with rich cultural traditions located in the middle of Northern Mexico. The city of Zacatecas still feels like a colonial town, with more museums than chain stores. There are very few concentrations of people outside of Zacatecas' three main cities (Zacatecas, Fresnillo, and Sombrerete). Zacatecas has 58 municipalities, many of which are no more than small farming villages inhabited by a few families. Local observers estimate that 1.5 million Zacatecanos reside in Zacatecas and 1 to 1.5 million Zacatecanos live in the United States, or up to 50% of the total native population, making people the state's primary export. Overseas remittances constitute the state's third largest income generator - after traditional industries such as agriculture and mining but ahead of new fields such as tourism. As Governor Garcia's Chief of Staff, Eduardo Ruiz Fierro, explained, Zacatecanos have a history of migration dating back nearly 100 years, and due to the lack of job opportunities young people start thinking about moving elsewhere, either legally or illegally, as young as 15. As Zacatecas is Mexico's leading producer of black beans and it is unlikely that local bean farmers will be able to compete with lower-priced U.S. imports after full NAFTA liberalization of the market in 2008, there may be even more pressures ahead.

Migration

13. (SBU) The daughter of Francisco Garcia Estrada, a former

Zacatecas Governor and a former Mexican diplomat, Governor Garcia is well-educated, well-traveled, and well-versed, and interested in taking best practices from other countries and applying them to Zacatecas. She has an intelligent, serious presence, and is engaged on national issues. Garcia told us that all of her efforts were aimed at countering the negative effects of migration out of the state. She noted that, whereas previously only the men in a Zacatecas family would emigrate to the U.S., entire families are leaving, effectively reducing the amount of remittances that are channeled back to Zacatecas. Garcia said that she works closely with the more than 50 well-established Zacatecano clubs in the United States to encourage Zacatecanos to invest in the state. The clubs, the largest of which are in Los Angeles, Dallas, and Chicago, help Zacatecanos in the U.S. effectively invest in Garcia's "Three-for-One" program: for every dollar that a Zacatecano invests in a project in Zacatecas, the municipal government gives one dollar, the state government gives one dollar, and the federal government gives one dollar. Unlike similar initiatives in Mexico, Garcia's program provides donors a formal, institutionalized voice in the project selection process. So far, the program has funded a variety of community projects, including new schools, libraries, and rural irrigation development. All political, economic, and media leaders with whom the CG and Econoff met heralded the project as a shining success.

14. (SBU) Garcia is also working to encourage Zacatecanos to return to their native state. In particular, Garcia is focusing her attention on getting young people, even if they have never lived in Zacatecas, to attend university in the state. As an incentive, she is working closely with the Autonomous University of Zacatecas and the Technological University of Zacatecas to improve their engineering programs, particularly in the area of Personal Software Packaging (PSP) engineering, in which Garcia believes Zacatecas can become a national leader. Comment. Although government officials state that local universities are increasingly producing graduates with technical aptitude, Zacatecas currently has no high technology industry and the

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general education level remains quite low (only 47% of Zacatecanos receive education beyond primary school). Even if Zacatecas could develop some high technology industry, this would only provide a limited number of jobs and limited help in alleviating widespread rural poverty. End Comment.

Agriculture and Mining Key Industries

15. (SBU) Despite the Governor's ambitious plans to move Zacatecas towards a more technologically-based economy, the fact remains that Zacatecas' economy relies almost exclusively on agriculture and silver mining. Zacatecas produces 33% of Mexico's black beans. In fact, according to Governor Garcia, over 80,000 farmers in Zacatecas grow them exclusively. This will be a huge issue in 2008 when the tariffs on beans are phased out under NAFTA because Zacatecano farmers will not be able to compete with U.S. producers with their small plots and poor soil. Garcia said that she has been working on this issue since she was elected in 2004. Notwithstanding her efforts to help farmers transition to other crops, such as wheat, Garcia lamented that Zacatecano farmers have been growing beans for generations and that there is huge resistance to changing to an entirely different product.

16. (SBU) Nevertheless, Garcia has moved forward with several initiatives to help diversify Zacatecas' agricultural industry. After traveling to Almeria in Southern Spain, which like Zacatecas has a relative scarcity of water for farming, and seeing the success of its greenhouse industry, Garcia promoted the construction of several greenhouses in Zacatecas that now produce fresh peppers, tomatoes, and cucumbers that are exported to other parts of Mexico. She hopes to build on this model, but it will require much more private investment and the willingness

of traditional bean farmers to learn new skills. In a separate meeting with the Consul General and Econoff, Gerardo Roma Fonseca, the Secretary General (Lt. Governor-equivalent) of Zacatecas state, described another of Garcia's initiatives to increase the production of agave in the southwestern part of the state that borders Jalisco. Currently, more than 5000 acres of land, which used to be devoted to bean plants, are now being used to grow agave to produce mescal.

17. (SBU) The second of Zacatecas' major industries is silver mining. Zacatecas is home to the world's largest silver mines. Yet while the industry employs many miners, none of the silver ore is processed in Zacatecas, and is instead trucked to neighboring states. Some of the refined silver makes its way back to Zacatecas where artisans make jewelry and silver-plated tableware, but even this is a dying industry in Zacatecas as fewer young people take up the craft. Also, with increased competition from China for finished silver products, Zacatecas' faltering silver crafts industry is hurting even further. Since the February 2006 tragedy at the Pasta de Concho mine in Coahuila, Garcia said she has been working to improve safety and environmental conditions in Zacatecas' mines, but added that much more federal funding was required to do so. She explained that, although the silver mines are located in Zacatecas, the mining companies paid taxes to the state in which they were headquartered (typically the D.F), so Zacatecas rarely sees any tax revenue from the mining that takes place in the state.

Are maquilas and tourism the answer?

18. (SBU) Given the constraints of the agricultural and mining sectors' ability to drive further employment and economic growth in Zacatecas, Governor Garcia is working to attract more maquila-style industry to the state. While there are some companies, like the U.S.-based Delphi Corp., that have established maquiladoras in Zacatecas, there are few economic incentives for companies to move to the state. A representative from Delphi, which has two automotive parts manufacturing plans in Fresnillo, Zacatecas that employ 5000 Zacatecanos, said that any water-intensive manufacturing process or one that required access to natural gas would never come to Zacatecas because neither is readily available. "Fortunately," he said, "our plants here require neither, which is why we have been here for more than 15 years. That won't work for many other industries, which is why they go to states like Coahuila and Nuevo Leon instead."

19. (SBU) Another disincentive for companies that might otherwise think of establishing a maquila in Zacatecas is the lack of adequate shipping routes to move final products from Zacatecas to other manufacturing centers or to the U.S. Zacatecas' main trade link is through Saltillo, Coahuila, and

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Monterrey, Nuevo Leon. While part of the highway between Saltillo and Zacatecas is a modern, four lane highway, it is primarily a narrow (and extremely dangerous) two-lane road congested with trucks and cars. Garcia stated that one of her primary objectives is to modernize and widen the length of the Saltillo-Zacatecas highway, which she believes will significantly improve Zacatecas' economic and trade ties with Coahuila, Nuevo Leon, and Texas. She is currently (and so far unsuccessfully) lobbying Mexican President Felipe Calderon and other national authorities to free up budget monies for this endeavor - which she labeled as the state's most important priority. When Econoff asked Governor Garcia why Zacatecas did not export more products via the two rail lines that run directly through Zacatecas from Aguascalientes all the way to El Paso and Eagle Pass, Texas, Garcia explained that the Ferromex-controlled line was saturated and that, with only one track, the trains cannot run efficiently.

10. (SBU) Governor Garcia would also like to see Zacatecas capitalize on and expand its already robust tourism industry.

To that end, she has embarked on a long-term effort to construct a convention and business center just outside of the City of Zacatecas, which will feature a convention center, hotels, a golf course, restaurants, and transportation to the Zacatecas city center where visitors can take advantage of the city's colonial charm and numerous cultural events. According to representatives from the Governor's office, although the project will take 15 to 20 years to complete and huge amounts of private capital investment, the Camino Real Hotel group has already agreed to be part of the project and will construct at least one new, large hotel next to the planned convention center. Also as part of the initiative, the state government will move its offices to the new "convention" area, freeing-up the historic buildings it now occupies in the city center for more art and history museums.

Relatively Shielded from Narco-Violence

¶11. (SBU) One comparative advantage Zacatecas has over its neighboring states is its security situation. All the political and business leaders with whom the CG and Econoff met referred to the low level of crime in Zacatecas as an attractive feature for tourists and business people. While other neighboring states have been plagued by increased narco-violence this year, Zacatecas has enjoyed a period of calm, with no drug-related executions and no kidnappings this year. However, Garcia recognizes that, while Zacatecas does not currently have a problem, the situation could change at any time if rival drug cartels decide to make Zacatecas the staging ground for a turf war. Garcia and other political leaders with whom the CG and Econoff met said that they would welcome assistance from U.S. law enforcement agencies to help Zacatecas professionalize its police and state investigative units, particularly during a period of calm.

¶12. (SBU) Comment. If the Governor's dream of widening the road to Saltillo came to fruition, this might lead to a greater narco-presence in the state as traffickers also sought to take advantage of the improved transportation links. The lack of narco-related violence in the state can be contributed, at least in part, to the lack of highway infrastructure connecting Zacatecas with other states. The one major connection is the two-lane road that connects Zacatecas with Saltillo, which runs through barren terrain and has military checkpoints long the way. With a new, modern four-lane highway, Zacatecas could become a more attractive drug-trafficking route from south-to-north and from west-to-east. End comment.

Bridging the political divide

¶13. (SBU) When the CG asked Garcia about her views on AMLO more than a year after he lost the 2006 presidential election, she described two types of PRD party members - the ones who lean more towards AMLO and the ones who lean more towards the ideals of the party's founder, Heberto Castillo. She indirectly described herself as a Castillo-style PRD member and likened that brand of PRD to the Lula wing of Brazil's Worker's Party (PT), i.e. leftist but still pragmatic and results-oriented.

¶14. (SBU) Governor Garcia acknowledged the importance of working with political leaders from other parties, particularly other Governors of Mexican states that are facing similar issues. Despite party differences, Garcia said that she works well with Durango Governor Ismael Hernandez Deras (PRI), Nuevo Leon Governor Natividad Gonzalez Paras (PRI), and in particular

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with San Luis Potosi Governor Jesus Marcelo de los Santos (PAN) -- with whom she works closely on immigration issues. When asked about Coahuila Governor Humberto Moreira Valdes (PRI) - a protege of the teachers union caudillo, Elba Esther Gordillo -- Garcia only said that she is trying to work with him, especially

on the Saltillo-Zacatecas highway initiative, but that he does not often follow-through on promises. She quickly added that she is working closely with the Governors of San Luis Potosi, Durango, and Aguascalientes to lobby President Calderon for a regional approach to trade that would be mutually-beneficial.

¶15. (SBU) Garcia also noted that she has a relatively good working relationship with state legislators from the PRI, PAN, and PT (workers) parties. The Consul General and Econoff had the opportunity to meet with twelve Diputados (Representatives) from the Zacatecas State Legislature after meeting with Governor Garcia. The leaders from each party reiterated the same themes as Garcia - migration, economic development, education, the strong ties with Zacatecanos in the U.S. - and added that they would like to establish a dialogue with the Consulate on these issues. The Zacatecas state electoral law does not have any residency or citizenship requirements, so two state legislature seats are designated for representatives who are born in or live in the U.S. The only requirement is that they have been born to two Zacatecano parents.

¶16. (SBU) When asked about how well she works with Cuauhtemoc Calderon, the City of Zacatecas Mayor who came into office last month, she said she wasn't sure what their relationship would be like, but added that she had an excellent working relationship with the previous PRD mayor. Calderon is a young and ambitious former restaurant-owner from the PAN party who already has his sights set on running for governor in 2009 when Garcia's term is up. He told the CG and Econoff that, despite their party differences, he looks forward to working with Garcia on improving the city's infrastructure, further developing the Three-for-One program and generating employment through tourism.

(Calderon's business community supporters where much blunter: they described Garcia as imperial and high-handed, noting that her convention center idea could prove to be a vehicle for diverting public funds to private pockets. Indeed, the fact that the PRD took a drubbing in the most recent mayoral elections indicates that some of the "Garcia" luster has faded.)

Calderon told Econoff that he thought Garcia would have a very hard time attracting young people back to Zacatecas. "It's not just that they go to the U.S., they also go to other Mexican cities like Monterrey and Mexico City, first to go to University and then to stay and work. There is little to keep young people interested in Zacatecas when there is very little to do. Yes, there are museums, but, for example, there is only one movie theater in the whole state!"

Comment

¶17. (SBU) Comment. Although Governor Garcia has a strong national image, the print and radio press with whom the CG met described her as very capable, but primarily focused on her national and international image. They criticized the amount of traveling she does and joked, "when she's in town, it's big news!" Governor Garcia admittedly travels a lot to Mexico City to lobby President Calderon and national legislators, to neighboring states to meet with fellow Governors, and to the U.S. to meet with Zacatecano groups. It seems that at least some of her travels, notably to Southern Spain, have resulted in positive developments for Zacatecas. But despite her sincere intentions, it is not clear whether Governor Garcia has been successful in moving Zacatecas any further forward than the last visit by Econoff in November 2006 (reftel). Statistics demonstrate that Zacatecas is not generating sufficient employment for its new workforce and state officials do not appear to have made any headway with getting its 80,000 bean farmers ready for the opening of the Mexican market to U.S. and Canadian bean imports in 2008. If Garcia is unable to resolve this problem, rural poverty could worsen, increasing pressures to migrate to the United States, and potentially tarnishing her national image. Her plans to increase tourism with a convention center have the potential to generate more jobs, but only in the long term. Currently, over 80% of tourists are Mexican, and most tourists only stay an average of one and a half days. Despite the plethora of cultural festivals in Zacatecas, with only 3000 hotel rooms and little room to build new hotels in the

city, Zacatecas is very limited in the amount of new tourists it can accommodate.

¶18. (SBU) The CG reiterated the USG's commitment to working with Zacatecas on economic and security issues, and specifically suggested to Governor Garcia, Mayor Calderon, and state

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diputados that establishing a partnership with a U.S. city (likely one with a concentration of Zacatecanos) through Sister Cities International could help Zacatecas develop a municipal partnership to strengthen its economic and community development. All welcomed the idea. Post is following up with Governor Garcia and Mayor Calderon to provide any assistance we can to help them establish a Sister City program. End Comment.
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